

## Minerals Management Service, Interior

## § 260.102

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AUTHORITY: 43 U.S.C. 1331 and 1337.

SOURCE: 45 FR 9539, Feb. 12, 1980, unless otherwise noted. Redesignated at 48 FR 1182, Jan. 11, 1983.

### Subpart A—General Provisions

#### § 260.001 Purpose and scope.

The purpose of this part 260 is to implement OCSLA, 43 U.S.C. 1331 *et seq.*, as amended, by providing regulations to foster competition including, but not limited to, regulations to prohibit joint bidding for development rights by certain types of joint ventures; the implementation of alternative bidding systems (including suspension of royalties for a period, volume, or value of production); and the establishment of diligence requirements for Federal OCS leases issued under the OCSLA.

[61 FR 3804, Feb. 2, 1996]

#### § 260.002 Definitions.

For purposes of this part 260:

*OCSLA* means the Outer Continental Shelf Lands Act, (43 U.S.C. 1331 *et seq.*), as amended.

*OCS lease* means a Federal lease for oil and gas issued under the OCSLA.

*Person* includes, in addition to a natural person, an association, a State, or a private, public, or municipal corporation.

[45 FR 9539, Feb. 12, 1980. Redesignated at 48 FR 1182, Jan. 11, 1983, as amended at 61 FR 3804, Feb. 2, 1996]

### Subpart B—Bidding Systems

#### § 260.101 Purpose and scope.

(a) This subpart establishes the several bidding systems that may be utilized in connection with the offering and sale of Federal leases for the exploration, development and production of oil and gas resources located on the OCS.

(b) Only bidding systems established by his subpart shall be utilized in OCS lease sales.

#### § 260.102 Definitions.

For purposes of this subpart B—

*Eligible lease* means a lease that results from a sale held after November 28, 1995; is located in the Gulf of Mexico in water depths 200 meters or deeper; lies wholly west of 87 degrees, 30 minutes West longitude; and is offered subject to a royalty-suspension volume authorized by statute.

*Field* means an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same general geological structural feature and/or stratigraphic trapping condition. Two or more reservoirs may be in a field, separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both.

*Highest responsible qualified bidder* means a person who has met the appropriate requirements of 30 CFR part 256, subpart G and has submitted a bid higher than any other bids by qualified bidders on the same tract.

*Highest royalty rate* means the highest per centum rate payable to the United States, as specified in the lease, in amount or value of the production saved, removed or sold.

*Lowest royalty rate* means the lowest per centum rate payable to the United States, as specified in the lease, in amount or value of the production saved, removed or sold.

*OCS lease sale* means the DOI proceeding by which leases for certain OCS tracts are offered for sale by competitive bidding and during which bids are received, announced and recorded.

*Production period* means the period during which the amount of oil and gas produced from a tract, or, if the tract is unitized, the amount of oil and gas as allocated under a unitization formula, will be measured for purposes of determining the amount of royalty payable to the United States.

*Qualified bidder* means a person, who has met the appropriate requirements of 30 CFR part 256, subpart G.

*Tract* means a designation assigned solely for administrative purposes to a block or combination of blocks that are identified by a leasing map or an

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official protraction diagram prepared by DOI.

*Value of production* means the value of all oil and gas production saved, removed or sold from a tract, or, if the tract is unitized, the value of all oil and gas production saved, removed or sold and credited to the tract under a unitization formula, during a production period, which value is determined in accordance with § 260.110(b).

[45 FR 9539, Feb. 12, 1980. Redesignated at 48 FR 1182, Jan. 11, 1983, as amended at 61 FR 12027, Mar. 25, 1996; 63 FR 2629, Jan. 16, 1998]

### § 260.110 Bidding systems.

(a) A single bidding system selected from those listed in this paragraph shall be applied to each tract included in an OCS lease sale.

(1) *Cash bonus bid with a fixed royalty rate of not less than 12½ per centum in amount or value of the production saved, removed or sold and an annual rental.* (i) The royalty rate to be paid by the highest responsible qualified bidder shall be a percentage of the amount or value of the production saved, removed or sold. Such royalty rate shall not be less than 12½ per centum at the beginning of the lease period in amount or value of production and shall be specified in the notice of OCS lease sale published in the FEDERAL REGISTER.

(ii) The amount of cash bonus to be paid is determined by the qualified bidder submitting the bid. Any deferment and the schedule of payments shall be included in the notice of OCS lease sale published in the FEDERAL REGISTER.

(iii) The annual rental to be paid by the highest responsible qualified bidder and any amounts creditable against future royalties shall be specified in the notice of sale published in the FEDERAL REGISTER.

(2) *Royalty rate bid based on per centum in amount or value of the production saved, removed or sold, with a fixed cash bonus and an annual rental.* (i) The royalty rate to be paid is determined by the qualified bidder submitting the bid and shall be based on a percentage of the amount or value of the production saved, removed, or sold.

(ii) The cash bonus to be paid by the highest responsible qualified bidder shall be an amount specified in the no-

tice of OCS lease sale published in the FEDERAL REGISTER.

(iii) Rental payment amounts must be as specified in paragraph (a)(1)(iii) of this section.

(3) *Cash bonus bid with diminishing or sliding royalty rate of not less than 12½ per centum at the beginning of the lease period in amount or value of the production saved, removed, or sold, and annual rental.* (i)(A) The royalty rate to be paid by the highest responsible qualified bidder shall be a percentage of the amount or value of the production saved, removed or sold. The royalty rate shall be calculated by utilizing either a sliding scale formula, which relates the royalty rate established thereby to the adjusted value of the oil and gas produced during the production period, or a schedule that establishes the royalty rate that will be applied to specified ranges of adjusted value of production. The description of the sliding scale formula or schedule shall include the relationship between adjusted value of production and royalty rate, and a stipulation of the lowest royalty rate and highest royalty rate. The sliding scale formula or schedule shall be included in the lease issued to the person who is the successful bidder as one of the lease terms and conditions.

(B) The royalty rate shall not be less than 12½ per centum at the beginning of the lease period in amount or value of the production saved, removed or sold and shall be specified in the notice of OCS lease sale published in the FEDERAL REGISTER.

(C) *Royalty payment calculation.* (1) The royalty rate utilized in the calculation of royalty payments is based on an adjusted value of production, and is established through application of a sliding scale formula or a schedule to the adjusted value of production.

(2) The adjusted value of production shall be determined by applying an inflation factor to the actual value of production.

(3) The established royalty rate is applied to the actual value of production, which results in the determination of amount in dollars to be paid to the United States by the person awarded the lease or the amount of royalty oil